

INCOMING TELEGRAM

Department of State

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RMR

FROM: Djakarta

TO: Secretary of State

NO: 1034, October 4, 4 p.m.

DEPTEL 465

Acting first Minister Leimena made strong appeal today for immediate completion PL-480 negotiations, citing urgent requirement for additional rice before end of year. Leimena said he was "most grateful" for surplus program which had enabled his government to stabilize price of rice during past year. Unless additional shipments were received from US within next months, stabilization would be impossible to maintain, he said.

I reviewed situation (reftel) emphasizing main obstacle signing of agreement was deposit rate. At his request promised to send him memorandum of conversation.

JONES

SW:BP

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Authority NND 949570
By NARA Date 8/4/00

INCOMING TELEGRAM

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RMR

FROM: Djakarta

TO: Secretary of State

NO: 1062, October 6, 4 p.m.

DEPTEL 465

In view urgent need meet Indonesia's rice shortage, I strongly urge rice be considered supplement to 1959 agreement. Negotiations new agreement bound involve delays whereas with supplemental quick exchange notes hopeful and thereby meet December-January rice shortage. Current rice stocks now low due unsatisfactory 1960 rice procurement, failure traditional supplier (Thailand) fulfill contract and main Indonesian rice harvest several months hence. We have excellent opportunity utilize PA-480 rice meet Indonesia's deficit and forestall possible turning to bloc countries in time of need. (EMBTEL 415).

In supplying this rice, I consider it unthinkable that we hold Indonesia to high deposit rate than that for all rice imports, 45 rupiah per dollar, and in effect ask Indonesia subsidize PA-480 rice or increase rice price by 25 percent. Solution deposit rate problem may be to fix same on commodity basis with rice and cotton at 45 rupiah per dollar (EMBTELS 35, 53, 74 and 186), which normal commercial rate.

Alternately, I recommend that special concession be given Indonesia as was done under the 1959 agreement regarding the deposit rate for all commodities and that rate be 45 rupiah per dollar. Conditions prevailing at time 1959 agreement signed still exist and if concession granted then even more imperative after precedent established to grant same now.

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Note: Message delayed in transmission.

JONES

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Rec'd October 9, 1960

8 P.M. 609

Action 10/14/60

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Origin

SENT TO: Amembassy DJAKARTA

609

Info:

Reaction here to Embtel 1062 keen disappointment as earlier Embtels had indicated GOI likely accept 56.25 rate. Since rice must be shipped for December arrival important consideration now is time. Interested agencies loath to agree to exception to 56.25 rate since this would permit other countries to allege they being discriminated against. An attempt to obtain exception liable result long delay and has no assurance success. USDA warns unless deal concluded promptly offer must be withdrawn as USG has urgent request rice from other country (Pakistan). Tendency here discount threat import rice Soviet bloc reported Embtel 1086 because known shortage rice ComChina. Rice unavailable elsewhere except possibly Viet Nam (which would require foreign exchange). Accordingly hope you can persuade GOI accept 56.25 rate stressing over-all benefit to Indo economy, policy against granting exceptions, pressure time and fact that special consideration given Indo despite other country's strong demand for rice.

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We have considered proposal for supplement as against new agreement but fail see advantages with respect time unless fewer procedural delays involved on part GOI in acceptance of supplement. From US viewpoint new agreement preferable. Program already has interagency approval in this form and being forwarded.

Interest

Drafted by: *91*
FE:STATE Thrasher/FN:ERChengy:18

Telegraphic transmission and classification approved by: *91*
Avery F. Peterson

Clearence: SPA - Mr. Bell *91*
CSD - Mr. Hazen (draft) *91*
ICA - Mr. Furst (subs.) *91*

Treasury - Mr. Nelson (subs.) *91*
Agriculture - Mr. O'Leary - FAS *91*

S/S-CR

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Page 2 of telegram to Amembassy, DJAKARTA

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Interested agencies have agreed on \$16 million program including 8.7 rice (75,000 tons), 3.4 triangular cotton, 2.5 tobacco and 1.4 ocean transportation with 65 percent sales proceeds for country use. With respect possible need rice subsidy we note price domestic rice Djakarta recently quoted 6.5 to 7 rupiahs per liter or about 2.95 to 3.2 rupiahs per pound. Landed cost PL 480 rice would be about 6 cents per pound or 3.3 rupiahs at 56.25 rate. Subsidy which might be necessary seems counterbalanced by advantages PL 480 agreement to GOI including fact price of tobacco below rate for commercial imports as is price cotton for third country processing (Embtel 465). Hope Emb, drawing on above as appropriate, can convince GOI its best interests lie in prompt conclusion agreement.

Decision GOI acceptance 56.25 rate and solution any other possible obstacles must be reached immediately. SEA rice suppliers have been assured PL 480 deliveries Indo and Pakistan would be over and above their US CY 1960 sales and would not interfere with their 1961 sales. Therefore in view of time required conclude sales agreement and move rice to Indo or elsewhere necessary you obtain GOI acceptance US proposal within coming week.

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Rec'd: October 10, 1960
7:33 a.m.

FE

Info

FROM: Djakarta

SS

TO: Secretary of State

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NO: 1086, October 10, 3 p.m.

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EMBTEL 1062.

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JONES

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Date of Action 10/14/60

Action Symbol SPA/E

Name of Officer ETC

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RMR

FROM: DJAKARTA

TO: Secretary of State

NO: 1127, OCTOBER 13, 3 PM

EMBTET 1062.

COMMENT:

DIRECTORATE PREPARING LETTER FOR DEPARTMENT FINANCE IN LINE
SUBSTANCE DEPTET 465. IN INTERIM DIRECTORATE HOPEFUL COMMODITY-
WISE DEPOSIT RATE ACCEPTABLE. DEPARTMENT FINANCE HAS PREPARED
COMPARATIVE COSTS RICE AT 45 RUPIAH PER DOLLAR RATE. US
6920 PER METRIC TON; BURMA RP 4670; THAILAND 5636;
VIETNAM 5691; NORTH VIETNAM 5635. EMBASSY ESTIMATES US RICE
AT 56.25 RATE AT ABOUT RP 8300. WITH USE 56.25 RATE, US
RICE AND COTTON PENALIZED COMPARED OTHER SUPPLIERS AND US
WHEAT FLOUR GIVEN ADVANTAGE OVER AUSTRALIAN FLOUR.

ALL PL-480 PURCHASES WILL BE BY THE INDONESIAN GOVERNMENT
THEREFORE ACCOUNTING PROCEDURES INVOLVED COMMODITYWISE
DEPOSITS SHOULD BE SIMPLIFIED.

MM

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Action Assigned to *State*

Action Taken

*D. J. L. 609*Date of Action *10/14/60*Action Office Symbol *SPA/E*Name of Officer *E. J. L.*Direction to DC/R *E. J. L.*7412
OCTOBER 14, 1960
6:33 AM*EF*This Document must be Returned
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By *GP* NARA Date *8/4/00*

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DEPARTMENT OF STATE INSTRUCTION
1253

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NO.: A-41, October 14, 1960

SUBJECT: Proposed Title I PL 480 Program - Indonesia

TO: American Embassy DJAKARTA

1. You are authorized to open negotiations with the Government of Indonesia on the sales program outlined herein for the supply of U. S. agricultural commodities under Title I, PL 480 having a market value of \$16.0 million (including ocean transportation costs to be financed by USDA on the portion of the commodities required to be carried on U. S. flag vessels). In conformance with Executive Order 10560, it is anticipated that the Ambassador will direct negotiations acting with the advice and participation of representatives of other agencies concerned, including the USOM Director and the Agricultural Attache. If serious problems arise upon initial review or during the course of negotiations, you should postpone negotiations and communicate with the Department before proceeding.

2. To facilitate Washington processes, the negotiating subjects which are more or less standard in all Title I negotiations have been combined in "Instructions (Part II) for Negotiating Agreements Under Title I, Public Law 480," a copy of which is attached. Part II is to be considered and handled as an integral part of this instruction, except as modified by this instruction.

3. The commodities included in the proposed program are as follows:

Commodity	Approx. Quantity	Export Market Value (million)	Est. COC Cost (million)
Rice	75,000 M.T.	\$ 8.7	\$14.4
Cotton	24,000 bales	3.4	4.9
Tobacco	3,500,000 lbs.	2.5	2.5
Ocean transportation		1.4	1.4
Totals		\$16.0	\$23.2

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This proposed

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DRAFTED BY: FAS:SPhillips
CSD:CHazard:n
CLEARANCES: CSD:H Gabbert
OR:H Bramble
SPA:EThrasher

APPROVED BY:

E - Charles W. Adair, Jr.
FN: TCheney
ED: WSchneisser
Interagency Staff Committee

I/E: RBilder
I/T: JDBradford
GU: INelson

OCT 14 1960 P.M.

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This proposed program would supply an amount of cotton estimated to be required to replace other Title I cotton originally designated for processing outside of Indonesia, which was diverted to domestic processing uses. The tobacco is provided to meet the needs of local manufacturers who need American types of tobacco to blend with local production during FY-61. No usual marketing requirement has been established on the grounds the GOI has indicated that no foreign exchange allocations will be made for foreign tobacco in the foreseeable future. It is recognized that the offer of rice (75,000) tons is less than requested but U.S. rice supplies for Title I programing purposes are nearly exhausted for the time period in which such rice is needed in Indonesia. In order to meet the Indonesian need for this rice at a critical time and to fulfill the terms of consultation with other rice exporting countries, it is most necessary to seek agreement on terms of this proposal as soon as possible.

4. Usual marketing conditions

Rice: It is understood that the amount of rice sold under this agreement is above and beyond the Government of Indonesia's commitments to purchase 800,000 M.T. from free world sources (other than from the United States under PL 480) for delivery in United States calendar year 1960.

5. Deposit rate of Indonesia Rupiah

The proposed deposit rate would, under the current Indonesian exchange system, be the Class A, subcategory II, import rate for U. S. dollars. This rate consists of the official rate of 45 rupiah per dollar plus an exchange surcharge (price component) of 25 percent, giving an effective rate of 56.25 rupiah per U.S. dollar. This rate will also apply to any dollar disbursements occurring under previous PL 480 agreements with the GOI subsequent to the date of this agreement. The Embassy should assure itself that the GOI understands that in the event of a change in the exchange system affecting the rate generally applicable to imports, the deposit rate would, of course, be changed accordingly.

A separate exchange of notes, providing for the applicability of this rate to the May 29, 1959 agreement and supplements thereto, to be exchanged at the signing of the new agreement is enclosed (enclosure #2). No exchange of notes is proposed for the new agreement since it is felt that U. S. policy regarding the applicable exchange rate is clearly outlined in Article III of the agreement.

6. Ocean Transportation: The following supersedes paragraph 3 of Part II (enclosure #1):

Unless otherwise authorized by the Director, Transportation and Storage Services Division, Commodity Stabilization Service, U. S. Department of Agriculture, Washington 25, D. C., at least 50 percent of the tonnage of the commodity purchased hereunder will be required to be shipped on privately owned United States-flag commercial vessels in accordance with the provisions of Public

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of Public Law 664, 83rd Congress. The USDA will finance the ocean freight on the 50% (approximately) which is required to be shipped on U. S. vessels. It will not finance the ocean freight on the remainder. When ocean freight is covered by the commodity price (as on C. & F. and C.I.F. sales) financing on U. S. vessels required to be used will be through the regular letter-of-credit procedure. If CCC finances the cost of insurance under a c.i.f. shipment, all claims shall be paid to the importer in U. S. dollars and upon demand by CCC the importing country shall pay to CCC, U. S. dollars in the amount paid by insurance underwriters. On f.o.b. and f.a.s. vessel U. S. port sales, the dollar cost of ocean freight on such vessels will be reimbursed to the other signatory government upon submission of documentation showing the dollar amount of ocean freight paid. Ocean freight authorizations issued by USDA providing for reimbursement under f.o.b. and f.a.s. sales are assignable to U. S. banking institutions.

The other signatory government will be required to deposit local currency for ocean freight financing by USDA only at the prevailing freight rate for non-U.S. vessels. PAs for commodities shipped in bulk, or normally moving in full cargoes, would be issued on an f.o.b. or f.a.s. basis only, and separate PAs would be issued for ocean transportation. Implementation of the 50-50 freight requirement will be accomplished by advance approval of bookings and charters by the USDA.

7. Currency Uses.

(a) U.S. uses. The rupiah equivalent of 4.8 million (30%) is proposed for U.S. uses under Section 104(a), (b), (f), and (h) through (r) and such other U.S. uses in Section 104 as may be mutually agreed upon. You should secure agreement that, upon request of the U.S., the rupiah equivalent of up to \$320,000 of the amount proposed for U.S. uses will be converted into other currencies for agricultural market development projects in countries where Title I funds are not available or are inadequate, and that up to \$500,000 will be converted into other non-dollar currencies acceptable to international airlines for purchase of transportation for Indonesian and American participants in the educational exchange program traveling to and from Indonesia in connection with Section 104(h) educational exchange activities. It is anticipated that IES will want to make use of this provision at the rate of \$100,000 per year for the next five years.

(b) Loans under 104(e) (Cooley Amendment): The rupiah equivalent of \$800,000 (5%) is earmarked for loans to private firms through the Export-Import Bank.

(c) Indonesian uses under 104(e): The rupiah equivalent of \$5.2 million (32.5%) is earmarked for grant to promote balanced economic development and trade in Indonesia.

(d)

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(d) Indonesian uses under 104(g): The rupiah equivalent of \$5.2 million (32.5%) is earmarked for economic development loans.

8. 104(g) Loan Agreement: A draft of the proposed loan agreement is enclosed (enclosure #5). You will note that the interest rate will be 4% and repayment is to be made in rupiahs. It is suggested that you negotiate repayment within 35 years with latitude to negotiate 40 years if necessary.

HERTER

Enclosures: 275

1. Instructions (Part II).
2. Note - Exchange Rate.
3. Note - Convertibility.
4. Sales Agreement.
5. Loan Agreement.

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No.: A-41, DJAKARTA

PAGE Enclosure No. 2

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Excellency:

I have the honor to refer to the Agricultural Commodities Agreement signed on May 29, 1959, as amended, between the Government of the United States of America and the Republic of Indonesia and to the notes exchanged on the same date between our Governments concerning the deposit of rupiah against dollar disbursements by United States banks or by the United States Government under Article III of the Agreement.

I wish to confirm my Government's understanding of the subsequent agreement reached in recent conversations between representatives of our Governments concerning the rate of exchange applicable to the deposit of rupiah referred to in Article III. This understanding is as follows:

1. The Category I rate of 37.848 rupiah per dollar is applicable to deposits relating to dollar disbursements made between May 29, 1959, and August 24, 1959.
2. The Category I rate of 45 rupiah per dollar is applicable to deposits relating to dollar disbursements made between August 25, 1959, and insert date immediately prior to date of signature of new Agreement.
3. As long as there is no change in the present exchange system of Indonesia, the Class A, Subcategory II, import rate, at present 56.25 rupiah per dollar, is applicable to deposits relating to dollar disbursements made on and after insert date of signature of new Agreement.

In the event of a change in exchange rates or the exchange system of Indonesia before the dollar disbursements referred to in Article III are completed, a new exchange rate for deposits under Article III, to be applicable from the date of such change, will be determined by mutual agreement.

I shall appreciate receiving Your Excellency's confirmation of the above understanding.

Accept, Excellency, the renewed assurances of my highest consideration.

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Authority NND 949570
By GP NARA Date 8/4/00

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[Excellency:]

I have the honor to refer to the Agricultural Commodities Agreement signed today between the Government of the United States of America and the Government of the Republic of Indonesia under Title I of the Agricultural Trade Development and Assistance Act, as amended, (hereinafter referred to as the Act) ~~which has been signed today~~ and to confirm the following supplementary understanding:

1. In order that the delivery of rice under the Agreement cited above should not unduly disrupt world prices of agricultural commodities, or impair trade relations among friendly nations, the Government of Indonesia shall import during United States calendar year 1960 with its own foreign exchange resources 800,000 metric tons of rice from exporting countries friendly to the United States. This quantity shall be purchased in addition to those quantities to be obtained pursuant to the Agreement cited above.

2. With respect to paragraph 1 of Article II, the Government of the Republic of Indonesia will provide facilities for the conversion of up to the rupiah equivalent of \$320,000 into other currencies. This facility is needed for the purpose of securing funds to finance agricultural market development activities of the Government of the United States in other countries. In this connection, the Government of the United States of America may utilize rupiah to procure in Indonesia goods and services needed in connection with agricultural market development projects and activities in other countries, and to pay for international travel originating either in Indonesia or in the United States, including connecting travel. For purposes of Section 104(h) of the Act, the Government of Indonesia will provide, upon request of the Government of the United States of America, facilities for the conversion into other currencies of up to \$500,000 worth of rupiah for use in purchase of air transportation for Indonesian and American participants in the International Educational Exchange Program.

3. With respect to paragraph 2 of Article II, loans to be made under that portion of Section 104(e) of the Act will be in accordance with the provisions of the Indonesian Foreign Capital Investment Law of October 27, 1958 No. 78.

I shall appreciate Your Excellency's confirmation of the above understanding.

Accept, Excellency, the renewed assurances of my highest consideration.

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PAGE 1 of Enclosure #X No. 4

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AGRICULTURAL COMMODITIES AGREEMENT
BETWEEN THE UNITED STATES OF AMERICA AND
THE GOVERNMENT OF THE REPUBLIC OF INDONESIA
UNDER TITLE I
OF THE AGRICULTURAL TRADE DEVELOPMENT AND
ASSISTANCE ACT, AS AMENDED

The Government of the United States of America and the Government of the Republic of Indonesia:

Recognizing the desirability of expanding trade in agricultural commodities between their two countries and with other friendly nations in a manner which would not displace usual marketings of the United States in these commodities or unduly disrupt world prices of agricultural commodities or normal patterns of commercial trade with friendly countries;

Considering that the purchase for rupiah of agricultural commodities produced in the United States will assist in achieving such an expansion of trade;

Considering that the rupiah accruing from such purchases will be utilized in a manner beneficial to both countries;

Desiring to set forth the understandings which will govern the sales of agricultural commodities to Indonesia pursuant to Title I of the Agricultural Trade Development and Assistance Act, as amended (hereinafter referred to as the Act), and the measures which the two Governments will take individually and collectively in furthering the expansion of trade in such commodities;

Have agreed as follows:

ARTICLE I
SALES FOR RUPIAH

Subject to the issuance by the Government of the United States of America and acceptance by the Government of the Republic of Indonesia of purchase authorizations, the Government of the United States of America undertakes to finance the sale for rupiah to purchasers authorized by the Government of the Republic of Indonesia of the following agricultural commodities determined to be surplus pursuant to Title I of the Act, in the amounts indicated except that application for purchase authorizations for any additional commodities or amounts of commodities provided for in any amendment to this agreement will be made within 90 days after the effective date of such amendment:

Commodity

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<u>Commodity</u>	<u>Value</u> (million)
Rice	\$ 8.7
Cotton	3.4
Tobacco	2.5
Ocean transportation	1.4
Total	\$16.0

Applications for purchase authorizations will be made within 90 calendar days after the effective date of this Agreement. Purchase authorizations will include provisions relating to the sale and delivery of commodities, the time and circumstances of deposit of the rupiah accruing from such sale, and other relevant matters.

ARTICLE II
USES OF RUPIAH

The two Governments agree that the rupiah accruing to the Government of the United States of America as a consequence of the sales made pursuant to this agreement will be used by the Government of the United States of America, in such manner and order of priority as the Government of the United States of America shall determine, for the following purposes in the amounts shown:

1. For United States expenditures under sub-section (a), (b), (f), (h), (i), (j), (k), (l), (m), (n), (o), (p), (q) and (r) of Section 104 of the Act, or under any of such subsections and for other mutually agreed uses under Section 104 of the Act, the Indonesian rupiah equivalent of \$4,800,000.
2. For loans to be made by the Export-Import Bank of Washington under Section 104(e) of the Act and for administrative expenses of the Export-Import Bank of Washington in Indonesia incident thereto the rupiah equivalent of \$800,000, but not more than 5 percent of the currencies received under the agreement.
3. For a loan to the Government of Indonesia to promote the economic development of Indonesia under Section 104(g) of the Act, the rupiah equivalent of \$5,200,000, for financing such projects to promote economic development, including projects not heretofore included in plans of the Government of Indonesia as may be mutually agreed. The terms and conditions of the loan will be included in a separate agreement between the two Governments.
4. For a grant to the Government of Indonesia under Section 104(e) of the Act, the rupiah equivalent of not more than \$5,200,000 for financing such projects to promote balanced economic development as may from time to time be mutually agreed.

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In the event that agreement on the use of rupiah set aside for loans and grants to the Government of Indonesia is not reached within three years from the date of this Agreement, the Government of the United States of America may use the rupiah for any purposes authorized by Section 104 of the Act, excluding Section 104(c).

To the extent that the total accruing to the Government of the United States of America as a consequence of sales made pursuant to this Agreement is less than the equivalent of \$16,000,000, the amount available for 104(g) loans and 104(e) grants to the Government of Indonesia will be reduced by an equivalent amount and proportionately between 104(g) loans and 104(e) grants; to the extent that the total exceeds the rupiah equivalent of \$16,000,000, 30 percent of the excess will be available for the use of the Government of the United States of America, 65 percent for loans and grants to the Government of Indonesia under Section 104(g), and 5 percent for loans under Section 104(e).

ARTICLE III
DEPOSIT OF RUPIAH

The deposit of rupiah to the account of the Government of the United States of America in payment for the commodities and for ocean transportation costs financed by the Government of the United States of America (except excess costs resulting from the requirement that the United States flag vessels be used) shall be made at the rate of exchange for United States dollars generally applicable to import transactions (excluding imports granted a preferential rate) in effect on the dates of dollar disbursement by United States banks, or by the Government of the United States of America, as provided in the purchase authorizations.

ARTICLE IV

The Government of Indonesia agrees that it will take all possible measures to prevent the resale or transshipment to other countries, or the use for other than domestic purposes (except where such resale, transshipment or use is specifically approved by the Government of the United States of America), of the surplus agricultural commodities purchased pursuant to the provisions of this Agreement, and to assure that the purchase of such commodities does not result in increased availability for export from Indonesia of these or like commodities.

The two Governments agree that they will take reasonable precautions to assure that sales or purchases of surplus agricultural commodities pursuant to the Agreement will not unduly disrupt world prices of agricultural commodities, displace usual marketings of the United States of America in these commodities, or disrupt normal patterns of commercial trade with friendly countries.

In carrying out this Agreement, the two Governments will seek to assure
conditions

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A-41, DJAKARTA
No.:

PAGE 4 of Enclosure 41 No. 4

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conditions of commerce permitting private traders to function effectively and will use their best endeavors to develop and expand continuous market demand for agricultural commodities.

The Government of Indonesia agrees to furnish upon request of the Government of the United States of America, information on the progress of the program, particularly with respect to arrival and condition of commodities and information relating to exports of the same or like commodities.

ARTICLE V
CONSULTATION

The two Governments will, upon the request of either of them, consult regarding any matters relating to the application of this Agreement or to the operation of arrangements carried out pursuant to this Agreement.

ARTICLE VI
ENTRY INTO FORCE

The agreement shall enter into force upon signature.

FOR THE GOVERNMENT OF THE
UNITED STATES OF AMERICA:

FOR THE GOVERNMENT OF
INDONESIA:

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Control: 10858

Rec'd: OCTOBER 20, 1960
8:09 AMInfo
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FROM: DJAKARTA

EUR
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TO: Secretary of State

NCEA

NO: 1196, OCTOBER 19, 4 PM

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DEPTEL 609.

SUBSTANCE REFTTEL PASSED TO FOREIGN DEPARTMENT YESTERDAY AND URGENCY FOR GOI DECISION ON DEPOSIT RATE. DEPARTMENT AID CHIEF SAID HE WOULD TRY TO GET FAVORABLE DECISION SOONEST BUT REITERATED RUSSIAN OFFER OF ONE HUNDRED THOUSAND TONS RICE AND CLAIMED MIN TRADE INTERESTED.

AT EVENING RECEPTION AID CHIEF TOLD DCM RUSSIANS WERE OFFERING CHINESE RICE AT 33 POUNDS STERLING A TON, GOI HAD OFFER FROM THAILAND AT 32 AND WOULD TRY TO BEAT DOWN RUSSIANS TO 31. HE SAID TRADE AND FINANCE MINS WOULD MAKE DECISION TODAY BASED ON RUSSIAN COUNTER OFFER. HE IMPLIED NEITHER TRADE NOR FIN MINS FULLY UNDERSTOOD PL-480 FORMULA AND WERE UNABLE COMPARE RELATIVE ADVANTAGE OVER RUSSIAN BID BECAUSE OF COMPLEXITIES DEPOSIT RATE AND ALLOCATIONS OF RUPIAH DERIVED FROM PL-480 SALES. LATER SEC GEN FON DEPARTMENT TOLD DCM SIMPLE BARTER DEAL WITH RUSSIANS MORE ATTRACTIVE THAN PL-480 WHICH WAS "TOO COMPLICATED." INDOS DID NOT UNDERSTAND WHY US INSISTED ON MAKING THEM SUBSIDIZE PRICE OF RICE BOUGHT FROM US TO TUNE OF TEN MILLION RUPIAHS WHEN PURPOSE OF RICE OFFER PRESUMABLY WAS TO HELP THEM.

AT MOMENT CANNOT PREDICT GOI DECISION BUT FOREGOING ILLUSTRATIVE OF NON-RATIONAL ENVIRONMENT IN WHICH EMBASSY MUST OPERATE. LEGISLATIVE AND PROCEDURAL COMPLEXITIES US ASSISTANCE ARE OFTEN MISUNDERSTOOD BY GOI OFFICIALS SOME OF WHOM INCLINED TO INTERPRET THEM AS CAMOUFLAGE SOME DEVIOUS SCHEME TO CREATE ADVANTAGE FOR US OR DELIBERATE FOOT DRAGGING. US DEMAND FOR PL-480 DEPOSIT RATE OF 56.25, FOR EXAMPLE, RATHER THAN

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-2- 1196, OCTOBER 19, 4 PM FROM DJAKARTA.

45, IN THEIR VIEW DISSONANT TO EXISTENCE UNUSED RUPIAH FUNDS
AND US ASSURANCE THAT THESE FUNDS FOR PRIMARY BENEFIT OF
INDONESIA.

INDOS CANNOT GET IT THRU THEIR HEADS THAT IT IS TO THEIR
ADVANTAGE TO ADD TO GOVERNMENT RUPIAH BUDGET AT TIME WHEN THEY
ARE DESPERATELY TRYING TO BRING BUDGET INTO BETTER BALANCE.
THUS, IRONICALLY, WE WHO HAVE BEEN PROSELYTIZING BALANCED
BUDGET HERE, MAY BE SACRIFICING PL-480 DEAL ON THIS ALTER.

THIS MAY BE ALICE-IN-WONDERLAND REASONING BUT ITS PART OF THE
PROBLEM.

JONES

MTD

DEPARTMENT OF STATE
1960 OCT 20 AM 11 13
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Control: 10953

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Rec'd: October 20, 1960

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FROM: Djakarta

Action Assigned to SPA/E

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TO: Secretary of State

G

SP

NO: 1205, October 20, 4 p.m.

Date of 10/27/60

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PRIORITY

Action Assigned to SPA/E

Name of Officer

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Foreign dp aid* Chief in effort break impasse on 56.25 deposit rate again urged US consideration of deposit rate by commodity. He said Minister Finance cannot take responsibility accept 56.25 rate because it represents major break through government policy to hold line on 45 to dollar for essential commodities and therefore must present problem to monetary council which meets only once monthly and cannot be convened to meet deadline DEPTTEL 609. Said also GOI so anxious get rice will probably be forced accept Soviet offer Chinese rice despite "possible default on delivery and poor quality." He stressed that feeling strong in GOI circles that US not adhering to principle of mutual agreement on settlement deposit rate as contained May 29, 1959 agreement. Said "no give and take" and in present crisis US "forcing things, pulling a gun, putting us in corner, inflexible, following the Russian way." Also stressed that special concession was granted Indonesia in 1959 (deposit rate at category I level) and why not now when urgency greater for concession on top priority commodity.

Comment: In my view, political considerations are over-riding in this case and US stands to lose by holding to stiff position. I appreciate that Indonesians always seem to be seeking exceptions to rule but there are times when gain to US can be considerable if we grant exception. In my opinion this is one such time. Therefore, I strongly urge approval of deposit rate by commodity which would give GOI the rice they desperately need at the deposit rate they consider fair, namely 45 to 1. As a less desirable alternative, but one that would permit immediate shipment of rice, would be approval of supplemental agreement with retroactive clause requested EMBTELS 415 and 889. I understand GOI prepared to approve

/any

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-2- 1205, October 20, 4 p.m., from Djakarta

any decision on subsequent settlement of deposit rate retro-actively to this purchase.

NIACT reply requested.

JONES

JAK:RJT/5

*As received, will be serviced upon request.

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1:30 OCT 20 PM 4 07
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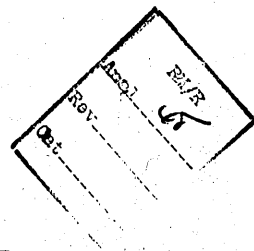
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In light of overriding political considerations outlined in your 1205 and previous communications FE examining situation urgently determine whether revisions present negotiating instructions re exchange rate can be arranged.

Hunter
(A.P.)

HERTEP

611.9841/10-2060



Drafted by:

FE:SPA:FGJarvis:js 10-20-60

Telegraphic transmission and classification approved by:

FE - Avery F. Peterson

Clearances:

FN - Miss Milne (substance)
Agriculture - Mr. Phillips (informed)
CSD - Mr. (Hazard (substance))

FE - Mr. Peterson

S/S-CR

OCT 21 1960 PM

NIACT necessary

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10-24-60

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Control: 12281

Action Assigned: 10/22/60

Revised: 8:15 a.m.

Action Taken

FROM: Djakarta

TO: Secretary of State

NO: 1216, October 22, 3 p.m.

PRIORITY

Reference: DEPTTEL 639.

Prior arrival reference telegram DCM and Agricultural Attache called to GOI intergovernmental meeting (SAC Committee) held Foreign Department Friday and informed that Minister of Finance pressed by urgency need for rice agreed "under strong protest" to 56.25 deposit rate for 1960 program. Applicability of this rate to 1959 agreement not yet settled.

DCM and Agricultural Attache then proceeded review terms of 1960 draft agreement. Foreign Aid Chief agitated over certain provisions, said he had received Minister of Finance approval 56.25 rate for new agreement (which he estimated involved increased cost of rupiah 180 million to Indonesia) but not for unused balance May 29, 1959 agreement which about \$10 million. Inclusion 1960 agreement of changes, such as increase dollar conversion for market development and entirely new item \$500,000 conversion for IEE program can't according Aid Chief, require time-consuming clearances GOI. Having thrown in towel on deposit rate, he said GOI hard to understand why US imposing new obstacles seemingly calculated prevent GOI from getting rice by December deadline. However, in attempt expedite analysis 1960 agreements, he directed SAC Committee to meet October 22 consider whole question. Embassy representatives requested to meet Foreign Office Monday October 24 to discuss Indonesian position.

Comment: While GOI has reluctantly accepted 56.25 rate, remain to be confirmed that Minister of Finance agrees applicable to unused balance May 29 agreement. Embassy has, of course,

emphasized

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-2- 1216, October 22, 3 p.m. from Djakarta

emphasized latter and inconceivable Minister of Finance under misapprehension as to our basic position.

Embassy continues feel US interests would be substantially furthered by offer lower deposit rate and if rate commodity-wise still a possibility offer to GOI on this basis would represent real token US responsiveness to Indonesian need. Seems to Embassy this would preserve principle at stake without sacrifice good will while at same time conforming to normal commercial practice. Through tough bargaining Embassy has apparently succeeded imposing US will on Indonesia but Embassy seriously doubts holding to this position will best serve our political objectives.

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October 24, 1960
8:21 a.m.

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FROM: Djakarta

FE
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TO: Secretary of State

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NO: 1227, October 24, 5 p.m. (SECTION ONE OF TWO)

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Instruction A-41.

CIA
NSA

DCM and Agricultural Attache informed in today's SAC meeting that GOI agrees 56.25 deposit rate applicable unused balance May 29, 1959, agreement effective rate exchange note. Unused balance (including escrow account) about \$16 million.

BOB
COM

In consideration new 1960 program Indonesians request:

XMB
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1. Adherence to language and clauses in 1959 agreement and amounts be in proportion to 1959 agreement.

TRSY
DCTL

2. Avoidance new elements because of necessity lengthy clearances GOI.

RMR

3. Signature by end October.

Following specific changes requested by GOI in draft 1960 agreement. (Enclosure no. 4 of reference instruction).

In title and fifth paragraph of introduction add "of 1954" after "act". Article I add after "90 days" in first paragraph and after "90 calendar days" in last paragraph, "or 180 days for third country cotton processing authorizations."

Article II: Change order of paragraphs by placing US uses fourth and move up other three. Reduce US uses from \$4.8 million to \$2.5 million and specify maximum amount for section (J).

(For your information both figures requested to be proportional to amounts contained in 1959 agreement. End for your information)

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Increase

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-2- 1227, October 24, 5 p.m. (SECTION ONE OF TWO), from Djakarta

Increase grant for GOI from \$5.2 million to \$7.5 million. In last paragraph change 30 percent to 15 percent and 65 percent to 80 percent.

Article IV: Add title "general undertakings."

Re deposit rate note: (Enclosure number 2 of reference instruction). No changes but GOI requests written understanding that 56.25 rate applicable loan agreement signed March 22, 1960, on basis of proportion of 56.25 deposits to be made May 29, 1959 agreement.

Re conversation note: (Enclosure number 3 of reference instruction). Reduce market conversation from \$320,000 to \$80,000 (proportional to 1959 agreement) and use same wording contained note number 780. Delete conversion for IEE.

Loan agreement to be discussed in next meeting. According to Aid Chief, Foreign Department foresees little if any changes.

JONES

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Comment:

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GOI Agreement 56.25 rate for unused balance May 29 agreement achieved due compelling urgency get needed rice. In their view, having responded to unyielding pressure on rate they expect concessions in agreement. Request for 80 percent of deposits for loans and grants for GOI in their view only just compensation for increased rate. Moreover, they point out that loans and grants and loans made under Section 104 (E) in May 1959 agreement totaled 85 percent; new proposed allocation same when 5 percent EXIM included. Other requested concessions are minor, follow pattern of May 1959 agreement, and intended primarily expedite clearances in GOI where May 29 agreements approved precedent. In the Embassy view, since 56.25 rate accepted by GOI, token of US response to Indonesian basic position as noted EMBTEL 1216 would now best be expressed by US approval of concessions they ask, most importantly, GOI's proposed reallocation of rupiah funds.

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SENT TO: Amembassy DJAKARTA 682

Embtels 1216, 1227

Following comments refer to specific changes in sales agreement requested by GOI.

Re numbered para 1 Embtel 1227. To maintain proportions of 1959 agreement for division of proceeds would be disadvantageous to GOI. Latter agreement provided for 15% US uses, 25% for 104(e) (Cooley), and 60% country uses. A-41 provided for 30% US uses, 5% Cooley and 65% country uses. To meet GOI fullest extent possible U.S.G. now prepared reduce US uses from 30% to 20% and increase country uses from 65% to 75% of which half for 104(e) grant. This maximum amount obtainable for grant under present U.S.G. policy. Also prepared reduce amount for conversion for 104(h) from \$500,000 to \$100,000. Cannot accept suggestion to reduce 104(a) amount below \$320,000. Firm USG policy per conversion provisions Section 104(a) PL 480 for all agreements since about January 1960 requires two percent of sales proceeds up to \$1 million annually be converted into other currencies for 104(a) purposes.

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Therefore, you authorized change proposed sales agreement transmitted A-41 as follows: In title and in paragraph 5 line 3 of preamble after "Act" insert "of 1954." In Article I line 9 after "90 days" and after "90 calendar days" in next line add "or 180 days for third country cotton processing

611.9841/10-2460

Drafted by: FAS:SPhillips	Telegraphic transmission and classification approved by: FE-J Graham Parsons
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Page 2 of telegram to Amembassy DJAKARTA

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authorizations."

In Article II revise order paragraphs so as to make present numbered paragraph 1 paragraph 4 leaving order of other paragraphs the same, present paragraph 2 becomes paragraph 1, etc. In renumbered paragraph 2 change \$5.2 million to \$6.0 million. In renumbered para 3 change \$5.2 million to \$6.0 million. In renumbered para 4 change \$4.8 million to \$3.2 million. In last para ~~Article~~ Article II change 30% to 20% and 65% to 75% and in last line after "104(g)" add "and 104(e)."

Prefer language enclosure 3 to A-41 except you authorized in last sentence numbered paragraph 2 to change "\$500,000" to "\$100,000" and add to end of sentence "during the next 12 months." In 1959 agreement amount for 104(j) expressed separately because of technical reasons which no longer obtain. Therefore it is included U.S. uses and no specific amount has been requested from proceeds this agreement.

Re application 56.25 rate to March 22, 1960 loan agreement we feel requested statement best handled in separate letter (unrelated to sales agreement) from Embassy to GOI. Text may be based on following: In keeping standard U.S. practices, deposits under 1959 sales agreement made at 56.25 rate will be averaged with deposits made at other rates to obtain a weighted average deposit rate which will be used in making apportionments of rupiah equivalents of dollar amounts specified for various uses under agreement. Hence the use of the weighted average rate in determining the rupiah equivalent of the amount set aside for loan will accurately reflect the proportion of the total deposits made

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Page 3 of telegram to Amembassy DIAKARTA

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at each of the three rates (i.e. 37.848, 45, and 56.25) applied to sales made under the agreement.

It should be noted that while the currency covered by Article II para 1 may be used under several subsections of 104, it would be possible under the wording of the agreement for all such currencies to be used for payment of U.S. obligations under Section 104(f). Purpose of this language is to assure all US uses currency would be available for accommodation exchange.

Hertner
J. S. P.
HERTER

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Rec'd: October 29, 1960
5:57 a.m.

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FROM: Djakarta

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TO: Secretary of State

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NO: 1261, October 28, 4 p.m.

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EMBTel 1227; instruction A-41

Exchange rate for deposits for calculating amount loan agreement is rupiah 56.25 per dollar. Foreign aid chief and Bank of Indonesia official raise question re possible future changes in deposit rate as GOI considers price components temporary measure. Should a specific clause re changes in deposit rate be included loan agreement for 1960 sales agreement or does paragraph No. 9 in draft loan agreement suffice?

Also raised question re inclusion in draft note, (enclosure 3 of reference instruction) increasing the amount credit extended March 22, 1960 loan agreement proportional increase in deposits expected accrue May 29, 1959 sales agreement with 56.25 rate. According GOI approximately \$16 million including escrow account remains under May 29, 1959 sales agreement; Embassy calculated with increase of rupiah 11.25 per dollar and 30 percent for 104 (G) loan the loan agreement should be increased by rupiah 60 million. Forward appropriate wording if amendment to be included.

GOI requests that in draft note re deposit rates (enclosure 2 of reference instruction) in third paragraph after the word "change" add "in price component system or."

SW:BP

JONES

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